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**LOAN NUMBER 7819-ME**

# **Loan Agreement**

**(Additional Financing for the Montenegro Health System Improvement Project)**

**between**

**MONTENEGRO**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated November 19, 2009**

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## **LOAN AGREEMENT**

Agreement dated November 19, 2009, between MONTENEGRO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

### **ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, in the Appendix to this Agreement or in the Original Financing Agreement.

### **ARTICLE II - LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five million one hundred thousand Euro (EUR 5,100,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 1 and October 1 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III - PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the MOH in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV -TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE V - REPRESENTATIVE; ADDRESSES**

- 5.01. The Borrower's Representative is its Minister of Finance.

- 5.02. The Borrower's Address is:

Ministry of Finance  
Stanka Dragojevica 2  
81000 Podgorica  
Montenegro

Facsimile:

382 20 224 450

- 5.03. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423(MCI) or  
64145(MCI)

1-202-477-6391

AGREED at Podgorica, Montenegro, as of the day and year first above written.

MONTENEGRO

By /s/ Igor Luksic

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jan-Peter Olters

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are to put in place the first steps towards a reformed health system in Montenegro, giving priority to increasing capacity for policy planning and regulation; stabilizing health financing; and improving primary health care service delivery.

The Project consists of the following parts:

#### Part A Support for Health Reform Program of the MOH, HIF, IPH and MDA

Provision of consultants' services, goods, Training and communications support to build capacity, help to identify and support best practices in health policy, financing and selected areas of service delivery, including: (i) policy development and capacity building for the MOH, HIF, IPH and MDA focused on issues of the highest priority for the Borrower, including the development of the benefits package, provider payment policies and contracting systems for secondary and tertiary care reform; pharmaceutical regulation and quality control; and establishment of a quality assurance system; and (ii) information system improvements to improve data for contracting, monitoring and management of hospital provided services.

#### Part B Phased Implementation of Primary Health Care Development

Implementation of policy and plans to develop primary healthcare, consisting of policy monitoring and evaluation, provider education, and national investments in the primary health care sector, including: (i) technical assistance and Training for the monitoring and evaluation of the primary health care reform and adjusting the associated policies and regulations; (ii) technical assistance, Training and goods for the development and implementation of family medicine specialization training and implementation of the primary health care retraining program; and (iii) support for scaling up of implementation of the primary health care reforms, including implementation of patient choice of, and registration with, a primary care doctor; implementation of a new contract with these doctors, based on a re-defined benefits package and a new payments model; the purchase of medical and other equipment for Health Centers around the country; and the rehabilitation and expansion of the Health Center in the municipality of Bijelo Polje.

#### Part C Project Management, Monitoring and Evaluation

1. Provision of support for the activities of the Project Management Network, including financing of PMN Operating Costs.
2. Strengthening the Borrower's Project management, monitoring and evaluation capacity through the provision of goods and consultant services, including Project audit, Training, and financing of TSU Operating Costs.



**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. Throughout the duration of the Project, the Borrower shall maintain the Project Steering Committee responsible for overall Project oversight and coordination with a composition and terms of reference acceptable to the Bank.
2. Unless otherwise agreed by the Bank the Borrower shall maintain during the entire term of the Project the PMN and the TSU with staff, resources and terms of reference required for Project implementation and satisfactory to the Bank.
3. The Borrower shall carry out the Project in accordance with the Project Operational Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior written approval of the Bank.
4. Except as the Bank and the Borrower shall otherwise agree, the TSU shall be responsible for day to day procurement and financial management activities for the Project under arrangements satisfactory to the Bank, and shall perform these activities in accordance with the provisions of this Agreement, Project Operational Manual, Memorandum of Understanding and the Procurement Plan.

**B. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Safeguards**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the EMP and shall not amend, suspend, abrogate, repeal or waive any provision of the EMP without the prior written approval of the Bank.

**Section II. Project Monitoring Reporting and Evaluation****A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project



Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding - with the modifications set forth in paragraph 3 below
(b) Shopping
(c) Direct Contracting

3. **Modifications to the Borrower’s National Competitive Bidding Procedures:**
  - (i) **Eligibility:** foreign bidders shall not be precluded from bidding, and no preference of any kind shall be given to national bidders.
  - (ii) **Procedures:** “Open procedures” shall be followed in all cases. Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, allowing a minimum of thirty (30) days for the preparation and submission of bids.
  - (iii) **Pre-qualification:** when pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.
  - (iv) **Participation by government-owned enterprises:** government-owned enterprises in Montenegro shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the government. Such enterprises shall be subject to the same bid and performance security requirements as other bidders.

- (v) **Bidding documents:** procuring entities shall use the appropriate standard bidding documents for the procurement of works which shall contain draft contract and conditions of contract, satisfactory to the Bank.
- (vi) **Submission of bids:** bidders may, at their option, deliver bids either in person, by courier service, or by mail at any time prior to the deadline set the submission of bids.
- (vii) **Bid opening and bid evaluation:** bids shall be opened in public and, if two envelopes are submitted for technical and price components, both shall be opened simultaneously. The time for the bid opening shall be the same as for the deadline for receipt of bids or immediately thereafter, and shall be announced, together with the place for bid opening, in the solicitation documents. Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be requested without the prior approval of the Bank. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid. Negotiations shall not be allowed with the lowest evaluated bidder or any other bidder.
- (viii) **Price adjustment:** civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.
- (ix) **Rejection of bids:** all bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (x) **Contracts:** all contracts shall be in writing, signed and stamped by authorized signatories of the purchaser and the supplier, and shall contain identical terms and conditions of contract to those included in the tender documents.
- (xi) **Securities:** bid securities shall not exceed two percent (2%) of the estimated cost of the contract; performance securities shall not exceed ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The wording of all such securities shall be included into the bidding documents and be acceptable to the Bank.

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Selection Based on Consultants Qualifications
(b) Selection of Individual Consultants
(c) Single Source Selection
(d) Selection under a Fixed Budget
(e) Least-Cost Selection

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

**E. Procurement of Operating Costs**

Incremental expenditures included in the PMN Operating Costs and TSU Operating Costs categories can be procured in accordance with the established Borrower’s administrative procedures acceptable to the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this

Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in Euro)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Goods, consultants’ services, Training, PMN Operating Costs and TSU Operating Costs	4,087,250	83%
(2) Works	1,000,000	85%
(3) Front-end Fee	12,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premium for Interest Rate Cap or Collar	0	Amount payable pursuant to Section 2.07 (c) of this Agreement in accordance with Section 4.05 (c) of the General Conditions
<b>TOTAL AMOUNT</b>	<u><b>5,100,000</b></u>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2012.

### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 1 and October 1 Beginning April 1, 2015 through October 1, 2019	10%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
  - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “EMP” means the Environmental Management Plan adopted by the Borrower and submitted to the Bank on February 13, 2009 and consisting of the set of mitigation, monitoring, and institutional measures and procedures required under the Project in order to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
6. “HIF” means the Health Insurance Fund of Montenegro established pursuant to the Decision of the Parliament of Montenegro of July 11, 1990 published in the Official Gazette of Montenegro No. 26/1990, as amended, and registered with the Commercial Court in Podgorica on February 19, 2003, under the number 8-0012414/001, or any successor or successors thereto.
7. “IPH” means the Institute of Public Health of Montenegro established pursuant to the Decision of the Government of Montenegro of February 1, 2002 published in the Official Gazette of Montenegro No. 3/2002, as amended, and registered with the Commercial Court in Podgorica on May 16, 2002, under the number 8-0005753/001, or any successor or successors thereto.
8. “MDA” means the Montenegro Drug Agency established pursuant to the Decision of the Parliament of Montenegro of December 22, 2004 published in the Official Gazette of Montenegro No. 80/2004 and No. 18/2008 as amended and registered with the Commercial Court in Podgorica on December 2, 2008 under the number 10-0000201/001, or any successor or successors hereto.



9. “MOH” means the Ministry of Health of the Borrower, or any successor or successors thereto.
10. “Memorandum of Understanding” means the agreement between the MOH and the MOF, dated September 16, 2009 and describing the role and responsibilities of the TSU in implementation of the Project, satisfactory to the Bank, as the same may be amended from time to time.
11. “Original Financing Agreement” means the Development Credit Agreement for the Montenegro Health System Improvement Project between Serbia and Montenegro and the International Development Association, dated June 11, 2004 as amended to the date of this Agreement (Credit No 3918 YF).
12. “Original Project” means the project described in the Original Financing Agreement.
13. “PMN” means the Project Management Network established by the MOH to coordinate implementation of the Project among health sector organizations involved in Project activities.
14. “PMN Operating Costs” means incremental expenses incurred by the PMN on account of the Project implementation, including costs of office and equipment rental and maintenance, utilities, translation and interpretation, communication, printing and publications, supplies, local travel costs and field trip expenses (including per diem), and other miscellaneous costs directly associated with the Project implementation, all based on periodic budgets acceptable to the Bank.
15. “Project Operational Manual” means the operational manual, satisfactory to the Bank, adopted by the MOH for the purposes of the Original Project and modified for the purposes of the Project to be financed by the additional financing, as the same may be amended from time to time.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
17. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated September 16, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service

providers' contracts, including costs of training materials, space and equipment rental, travel, accommodation and per diem costs of trainees and trainers, trainers' fees, and other training related miscellaneous costs.

19. "TSU" means the Technical Services Unit established within the Borrower's Ministry of Finance for the purposes of facilitating the implementation of the Project and entrusted with the implementation of day to day procurement and financial management activities under the Project pursuant to the Memorandum of Understanding.
20. "TSU Operating Costs" means the incremental expenses incurred by the TSU on account of Project implementation, including costs of equipment rental and maintenance, translation and interpretation, communication, printing and publications, supplies, local travel costs and field trip expenses (including per diem), and other miscellaneous costs directly associated with the Project implementation, all based on periodic budgets acceptable to the Bank.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. The definition of the term "Conversion Date" set forth in the Appendix is modified to read as follows:

"Conversion Date" means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines."